International Bancshares
Corporation

November 7, 2014

Via "www.regulations.gov

Mr. Robert E. Feldman
Executive Secretary
Attention: Comments
Federal Deposit Insurance Corporation
550 17th Street, NW
Washington, D.C. 20429

Mr. Robert deV. Frierson
Secretary
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue NW
Washington, D.C. 20551

Re: Proposed Revisions to Interagency Questions and Answers Regarding Community Reinvestment; Federal Reserve System Docket No. OP-1497

Dear Sirs:

The following comments are submitted on behalf of International Bancshares Corporation ("IBC"), a multi-bank financial holding company headquartered in Laredo, Texas. IBC holds four state nonmember banks serving Texas and Oklahoma. With over $12 billion in total consolidated assets, IBC is the largest Hispanic-owned financial holding company in the continental United States. IBC is a publicly-traded bank holding company. IBC is well-positioned to understand the challenges of this proposal. Many of the markets that IBC serves are low income minority communities which have limited banking alternatives.

On September 10, 2014, the FDIC and Board of Governors of the Federal Reserve System, along with the OCC (collectively, "Agencies"), proposed to clarify their Interagency Questions and Answers Regarding Community Reinvestment to address several community development issues. The Agencies propose to revise three questions and answers that address (i) alternative systems for delivering retail banking services and (ii) additional examples of innovative or flexible lending practices.

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In addition, the Agencies propose to revise three questions and answers addressing community development related issues, including economic development, community development loans, and activities that are considered to revitalize or stabilize an underserved nonmetropolitan middle-income geography. The Agencies also propose to add four new questions and answers, two of which address community development services, and two of which provide general guidance on responsiveness and innovativeness.

Thank you for the opportunity to comment on this proposal. Our comments are noted below.

A. Availability and Effectiveness of Retail Banking Services

The Agencies propose to revise existing Q&A §I.24(d)–1 to clarify how examiners should evaluate and consider alternative systems for delivering retail banking services in an institution's assessment area(s). The Agencies propose deleting language that states "performance standards place primary emphasis on full service branches" and further deleting the statement that provides that alternative systems are considered "only to the extent" that they are effective alternatives in providing needed services to low- to moderate- income ("LMI") geographies and individuals.

The Agencies note that changes in technology and the financial market increasingly provide opportunities for financial institutions to use alternative delivery systems effectively to provide needed services in LMI geographies and to LMI individuals. The Agencies also state that they encourage the use of all types of delivery systems to help meet the needs of LMI geographies and individuals.

We support the proposed Q&A deletions to provide certainty among financial institutions that such activities should be considered during a CRA evaluation. The proposed revisions to existing guidance would likely encourage broader availability of alternative delivery systems to LMI geographies and individuals without diminishing the value full-service branches provide to communities.

Almost all banks have online banking services, with the capability of establishing customer relationships electronically. Customers can do business by phone—even depositing checks through image capture on smart phones. IBC has an attractive retail branching program through grocery store relationships. So, where is our "market"? We would suggest it would be most appropriate to evaluate our performance on an aggregate basis.

We note that with all of the changes in delivery of banking services, the entire concept of assessment area appears to us to be outmoded. Yet, IBC's banks must expend significant resources in mapping their assessment areas, identifying the correct census tracts for our evaluation, and then monitoring activities accordingly. This cost produces nothing in regard to expanded services and products to consumers. However, it is one of many compliance costs for IBC's institutions.

B. Alternative Systems for Delivering Retail Banking Services

Additionally, the Agencies propose to revise Q&A §I.24(d)(3)–1 to recognize the broad range of alternative systems that financial institutions use to deliver retail banking services to LMI geographies and individuals. The revised Q&A would also include examples of alternative delivery systems that reflect current technological advances in the industry, but also note that such examples are not intended to limit consideration of systems that have yet to be created. In addition, the Agencies propose to revise existing Q&A §I.24(d)(3)–1 to further clarify how examiners can assess the availability and effectiveness of an institution's alternative delivery systems by evaluating the following factors that demonstrate consumer accessibility and the use of those systems in LMI geographies and by LMI individuals: (i) The ease of access, whether physical or virtual; (ii) the cost to consumers, as compared with other delivery systems; (iii) the range of services delivered; (iv) the ease of use; (v) the rate of adoption; and (vi) the reliability of the system.

The proposed revised Q&A would also state that financial institutions could provide available data on consumer usage or transactions and the other factors outlined above to demonstrate the availability and effectiveness of the institution's alternative delivery systems. The proposed revised guidance would clarify that examiners will consider any information an institution maintains and provides demonstrating that the institution's alternative delivery systems are available to, and used by, LMI individuals.

We support the proposed updating of the CRA Q&A to recognize the range of alternative retail banking service systems available to meet LMI and the inclusion of examples that reflect technological advances in delivering retail banking services.

We also agree that the CRA Q&A should provide examples of how to measure their effectiveness in reaching LMI geographies or individuals, or provide insight into how an institution can demonstrate that its alternative delivery systems are effectively reaching LMI geographies or individuals located in the institution's assessment area. The CRA Q&A should encourage creativity and allow banks to be innovative and flexible in designing new products and services that can reach out to *all* sectors of the community. The revised CRA Q&A should recognize this and strongly encourage it. Accordingly, we support the proposed change.

C. Innovative or Flexible Lending Practices

The Agencies propose to revise existing Q&A §I.22(b)(5)–1 to expand the list of examples of innovative or flexible lending practices, including explaining that examiners will consider whether, and to what extent, the innovative or flexible practices augment the success and effectiveness of the institution's lending program and that an innovative or flexible lending practice is not required to obtain a specific rating, but rather is a qualitative consideration that, when present, can enhance a financial institution's CRA performance. In addition, the Agencies propose to revise the Q&A by adding two new examples of innovative or flexible lending practices. The first example describes small dollar loan programs as an innovative practice when such loans are made in a safe and sound manner with reasonable terms, and are offered in conjunction with outreach initiatives that include financial literacy or a savings component. The second example of an innovative or flexible lending practice describes mortgage or consumer lending programs that utilize alternative credit histories (*e.g.*, rental agreements, utility accounts, etc.) in a manner that would benefit LMI individuals.

While we support small dollar loan programs when profitable for banks and the use of alternative credit histories, if reliable, we note that the CRA requirements appear to run counter to certain safety and soundness expectations. For example, there is Interagency Guidance on Subprime Lending that discourages lending to borrowers with credit scores below 660. Various bulletins on subprime lending appear to confuse lending to borrowers with subprime characteristics with predatory lending. The state of Texas has an average credit score of approximately 550. We believe the Texas/Mexico border areas have an even lower average credit score. But if IBC's banks were to reduce its lending based on poor credit scores, it would be in trouble for not meeting the credit needs of its LMI customers.

If loans to customers with poor credit scores do *not* have higher interest rates, then safety and soundness examiners may conclude that the loans are not being appropriately priced for risk. On the other hand, a failure to make loans in these areas could alternatively lead to a redlining complaint. This puts banks between a rock and a hard place. The FAQs should clarify the point that these programs must be designed in a manner to meet prudent underwriting guidelines, including appropriate pricing.

D. Community Development

The Agencies propose revisions to Q&A §II.12(g)(3)–1 to provide clarification and guidance regarding economic development activities undertaken by financial institutions. First, the Agencies propose to revise the statement that activities promote economic development if they "support permanent job creation, retention, and/or improvement for persons who are currently low- or moderate-income" by removing the word "currently." Second, the Agencies propose to add additional examples that would demonstrate a purpose of economic development. The Agencies propose to revise the guidance to add that activities promote economic development if they support: (1) permanent job creation, retention, and/or improvement through (i) workforce development and/or job or career training programs that target unemployed or LMI persons; or (ii) the creation or development of small businesses or farms; or (iii) technical assistance or supportive services for small businesses or farms, such as shared space, technology, or administrative assistance; or (2) Federal, state, local, or tribal economic development initiatives that include provisions for creating or improving access by LMI persons, to jobs, affordable housing, financial services, or community services. Finally, the proposed revised Q&A would include Community Development Financial Institutions that finance small businesses or small farms in the list of entities for which the Agencies will presume that any loan to or investment in promotes economic development.

We support the proposed changes as the existing guidance on whether an activity promotes economic development is unclear and leads to the inconsistent treatment by examiners of economic development activities under the CRA regulations. The guidance will benefit from additional clarification to facilitate consistent application of the "purpose test" and to ensure that all activities promoting economic development are considered.

Additionally, the Agencies propose to revise Q&A §II.12(h)–1 to incorporate a new example of a community development loan that would illustrate how a loan that finances renewable energy or energy-efficient technologies and that also has a community development component may be considered in a financial institution's performance evaluation, and a new example involving communication infrastructure as an activity that would be considered to "revitalize or stabilize" an underserved nonmetropolitan middle income geography.

We support the proposed change as examiners do not always give consideration for projects or initiatives that incorporate "green" components because the concept is not specifically addressed in either the CRA regulations or the current Q&A. In addition, examiners may be hesitant to provide consideration because the benefit to LMI residents, borrowers, or communities may not be easily quantified.

Thank you for your consideration.

Respectfully,

Dennis E. Nixon
President